THE

ATION IN A DILEMMA;

OR,

WHICH SHALL WE ALTER?

THE CURRENCY

OR THE MODE OF TAXATION?

BY THE AUTHOR OF

"THE CURRENCY QUESTION IN A NUTSHELL."

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THE NATION IN A DILEMMA.

LETTER I.

OUR PRESENT EMBARRASSMENTS ARTIFICIALLY CREATED.

"If this country has money in abundance, it will have all the trade from the whole world; and if you make money very scarce, the trade will go to other countries."—*N. M. Rothschild's Evidence on the Bank Charter*, No. 4947.

The nature and operation of the Circulating Medium form one of the most important branches of Commercial and Political Science; and those persons who are endeavouring to store their minds with really useful knowledge will do well to make themselves acquainted with its principles. Perhaps upon no other subject of equal importance does so much ignorance prevail among well educated men; and the necessary consequence is, that great distress frequently arises and prevails in the community, which might altogether be avoided—a distress for which there is no necessity in the nature of things, but which is entirely the result of our own artificial arrangements.

It is not by any means an uncommon occurrence for us to find all at once our trade paralysed, our merchants filled with dismay and despondency, our manufacturers reduced to working half time, and people's minds generally filled with doubt and apprehension, when absolutely nothing at all has occurred really to cause or justify such a state of things. The nation is precisely in as good a condition as it was during the previous week; it contains just the same amount of material wealth; no property of any kind

has suffered destruction, or even diminution; all that constitutes the riches of a community remains unimpaired and unchanged; and yet numbers of men, who, a few days previously, were very well off, are entirely ruined, and hundreds of others are obliged to sacrifice half their property to save themselves from the Gazette.

In order to shew that there is no real ground for this state of things,—but that the distress we frequently experience, and which we have described, is artificially caused, and may be made to give way to wise commercial arrangements,—we remark, in the first place, that there can be no real distress where there is sufficient to supply every want. Distress necessarily implies an *absence* of those things which are fitted for the supply of our necessities—in one word, it implies *want*. There can be no real distress without want. Am I distressed by hunger? then my distress is want of food.—By thirst? then it is want of drink.—By nakedness and cold? then it is want either of raiment, fuel, or a habitation; and so on with every kind of distress which a human being can experience. As long as an individual or a community possesses an abundance of those things which are fitted for the supply of human wants, so long, if that individual or community be distressed, must the distress arise from artificial causes.

Now, it is not pretended by any one that our difficulties arise from a deficiency of any of the necessaries and conveniences of life—from too small a quantity of material productions. So far from this being the case, some people, absurdly enough, attribute our embarrassments to the superabundance of goods. "Over-production, over-production," these persons cry, "is the cause of our misery!" not reflecting that that which they assert is absolutely contradictory and impossible. If *over*-production alone were the cause, the remedy would be *less* production. But it is notorious, that the very persons who complain of

over-production being the cause of distress, are themselves exercising their ingenuity in every possible way to *increase* production. Improved machinery, lengthened hours of human labour, and the employment of women and children, all contradict the notion which people are apt to entertain *when they cannot sell their goods*, that too *many* are produced. No; let production be increased a thousand-fold, and the community will be but a thousand-fold the richer. Let coats, hats, shoes, and provisions be so multiplied, that they may be had almost for the picking up; and we shall still be at a loss to conceive how the distress of the country is increased by this abundance. The evil, then, is not in over-production; for, according to the soundest and most obvious principles of political economy, a nation is enriched by every addition which can be made to its material wealth, and not distressed by such addition.

What, then, *is* the cause of the commercial embarrassment and perplexity which are experienced? for it is indubitable that such embarrassment and perplexity do exist. If it be a truth that too many commodities of all kinds cannot be produced, how is it that our merchants and manufacturers are ruined by possessing too many? The principle we have already laid down, that "All distress proceeds from want," will furnish us, we believe, with the solution in this case. It is *want of a proper medium of exchange* that distresses them. It is not want of goods, but want of the instrument by which the value of those goods is measured, and by which alone a legal transfer can be made, that distresses them. Under a monetary system, it is not enough for persons to possess an abundance of commodities to free them from embarrassment. Before they can procure those articles which they want, in exchange for those which they possess, they are obliged to procure the *measure* which alone is allowed to determine the relative values of these productions. If, from any cause, there be in-

superable difficulties in the way of obtaining this measure, their exchanges must be delayed or abandoned, so that they are actually as much distressed as though they had no goods to exchange. A linen-draper who employs *fifty* young men behind his counter, may be as much inconvenienced, if he have only *two* or *three* yard measures in his shop, as though he had no goods to sell; especially, if he cannot legally do business, except through the medium of these yard measures; and if he have to borrow others, and pay enormously for their use, his business may become not worth the doing.

But here we shall probably be met by the assertion, that the distress of our commercial interests cannot possibly arise from an insufficiency in the circulating medium—that, on the contrary, "the evil is exactly the reverse of a want of money," there being such a "superabundance of it, that it may be obtained by persons in good credit, at rates not exceeding two per cent."*

Of all the objections that have ever been made to an extension of the circulating medium of the country, the one now named is perhaps at once the most plausible and the most fallacious. It is the most plausible, because on the face of the matter, it would certainly seem clear, that if there is so absolute a glut of money, that plenty of it may be obtained at two per cent., it cannot be through want of money that trade is so languid. It is, however, the most fallacious; for the parties who make it, seem entirely to lose sight of this most important circumstance, namely, that this abundance of money is not a *natural*, *positive*, and *permanent* abundance, but an abundance caused by the almost total destruction of trade by the *fluctuation* and *uncertainty* of the supplies of money under the system now in operation; and, moreover, an abundance which could not exist, provided trade were in a healthy and flourishing condition. There is *no amount* of

* Morning Chronicle, City Article, September 2, 1843.

trade doing, *therefore* there is abundance of money; aye, "superabundance." Bankers and bill-brokers are almost begging that commercial men will take the money off their hands at two per cent! But what, let us ask, would be the result, did they take the money thus almost forced upon them? Why, the same that has happened twenty times before: viz. that as soon as trade had revived a little by the employment of this money, prices would recover from their extreme depression—this would turn the foreign exchanges against us—gold would leave the country, and commercial men would be called upon either to refund this money before they had realised returns, or be made to pay six, eight, or ten per cent. interest, instead of two per cent., as at present. What is the use, then, of telling us, that plenty of money may *at present* be had at two per cent., when it can only be had upon the condition, that it must not be used in trade, unless at the most desperate risk to the enterprising employers of it? Such an abundance as this is not an available abundance, and is, therefore, no abundance at all. It does not exist for trade, but for accumulation. Were money abundant for a *permanency* at two per cent., or even double two per cent., there would not be much reason to complain. But it is the ephemeral and evanescent character of our monetary supplies which is the great evil. Directly they begin to be used in good earnest, they disappear.

What we want, is a currency which will abide with us when we are prosperous in our trading affairs—one that will not desert us when we most need it—one the very reverse of the present, which is only plentiful, upon the condition of its being unemployed.

It is remarkable that so many mercantile men should so much have mistaken the cause of their difficulties, as to believe that over-production was the root of the evil; and it can only be accounted for by the consideration, that this is probably the first impression that would be made on the mind of a

person who is deeply immersed in the ordinary routine of business, and unable, from want of time or inclination, to investigate the cause of those effects which he witnesses. A merchant, A., brings to market a certain commodity; and other merchants, B. and C., in the same line of business, bring the same kind of commodities. There is probably no sale for them, or, at any rate, not to any considerable extent. A. B. and C. at once conclude that too many are brought to market, because they find that the demand for them by the public is not equal to the supply which they have furnished. They rest here, and go no further. It never strikes them to enquire, *why* it is that there is no *greater demand* for the goods?—The supply is obviously greater than the demand, but the fault may be in the *demand* instead of the supply. And so it is, in the majority of instances. While A. B. and C. are concluding they have made too many goods, D. E. and F. are looking at these goods with longing eyes, wanting, but not daring, to buy them. They are in the same condition as A. B. and C.; they cannot obtain a sale for *their* respective commodities, otherwise A. B. and C.'s goods would not stand long on hand. All this time their own commodities are wanted by a third party in the same state as themselves; and so all are in turn distressed, not for want of wealth, for they may be actually possessed of property sufficient to supply all their real wants, but for want of a proper supply of that instrument, which can alone legally transfer that property from one person to another in the ordinary course of trade.

The fact is, that the great mass of the population is wanting those very things of which it is said there is too great a supply. The supply is not too great abstractedly; but the demand is suppressed and forcibly held down by the stern necessity of first providing that which, from many causes, is frequently unattainable. Though the property of this country

has been calculated to be worth upwards of three thousand millions of pounds sterling, yet not fifty millions' worth is at any time represented by legal currency; and in times of commercial pressure, this comparatively small amount is considerably reduced.

Now the distress arising from this cause is not a natural distress, and is not at all a necessary one. It is a distress *forced* upon the community. It would not occur unless it were *made* to occur. Did any thing happen to annihilate wealth—did an earthquake, a tempest, or a fire occur, which caused the destruction of property, no one need to be surprised at distress arising; but where every thing which constitutes human wealth remains undiminished and unimpaired, it is the height of absurdity to suppose any general distress need *necessarily* occur.

We implied, in the former part of this Letter, that general over-production could not happen; but there is a species of over-production which may occur, and which it is necessary to point out that our meaning may not be misunderstood. The over-production to which we now allude is *relative* over-production. Production may be relatively too great, if too great a proportion of one kind of goods is produced compared with other kinds. This kind of over-production would always be manifest, and be immediately rectified, if it were not that our currency system misleads the producers of these goods, and hinders them from ascertaining when there is too great a supply of one article compared with others. The only thing by which a merchant can discover that there is this over-production of one particular commodity, is the fact that he cannot find a ready sale for it; but then this difficulty of effecting sales may occur when there is really no relative over-production; for this is not the only cause which prevents sales taking place—another, and more frequently recurring cause, is, a scarcity or a fluctuation in the supply of the circulating medium; and when two causes may be at work to produce the

same results, it is difficult to tell which is the one that is operating. That kind of over-production, as it is erroneously called, which only results from the supply of the circulating medium being too limited, is really no over-production at all; for in this sense every thing might be produced in too great quantity, which, as we have before shewn, is absurd and contradictory. This, however, is the kind of over-production of which our merchants generally complain. They are too deeply engaged in the every-day transactions of their business, to stop to enquire whether the inconvenience they so frequently experience arises from there being *too much* of commodities, or *too little* of the medium of exchange, but set it down at once as a self-evident truth, that when they cannot sell their goods *too many* have been made.

It is well for us that our commercial panics and our trading embarrassments, which many persons think it is impossible to remove, have this artificial origin. Had they their foundation in natural causes, we might possibly strive in vain for an amelioration of them. Happily for us, our troubles arise not from want of real wealth, but from want of a proper representative of it; not from want of the substance, but from want of the shadow; not from want of that which Providence furnishes—which, in such a case, we could in no way supply—but from want of that which Providence leaves *man* to furnish, and which by wise legislative arrangements can be supplied in a degree equal to the demand.

Having, in the foregoing few remarks, dwelt upon the embarrassments occasioned by a false and unsound system of Currency, by which we think we are at present distressed, we intend in our subsequent letters to exhibit, as far as our narrow limits will allow, what we conceive to be the *true philosophy* of a circulating medium; the principles of which, notwithstanding the reputed intricacy of the subject, may, we think, be as clearly exhibited as the principles of any other science.

LETTER II.

THE PHILOSOPHY OF THE CIRCULATING MEDIUM.

"In all our money transactions hitherto, we have paid too much regard to *coin*, and have sacrificed to its attainment that *real* money of which it was but the representative. We forgot that the life was more than meat, and the body than raiment."—*Essay on Money.*

A CIRCULATING MEDIUM, when properly constituted, is a public and an authorised instrument for effecting the equitable exchange of commodities, according to their respective values.

It has two functions to fulfil: that of *measuring* value, and that of *securing* to the possessor the value which it indicates or represents.

A Circulating Medium may therefore be defined as being,

1. An established measure or scale for the purpose of computing and determining the value of all commodities.

2. A security for value parted with, which will infallibly restore, at the pleasure of the holder, the value which he gave when he became possessed of it.

We say that the Circulating Medium is, first, a *measure* of value; and to shew how it becomes so, we must first explain what is meant by the terms, "value," "standard of value," and "measure of value;" for these words have been used so much at random, that many people experience great difficulty in attaching any definite meaning to them; and it will be next to impossible to give a clear and distinct view of this important subject, unless we first attach precise and definite meanings to these terms, which are so generally used but so little understood.

We therefore first enquire, What constitutes the *value* of objects?

The term "value" has two significations, one of which we may call the natural and philosophical

meaning; the other, the commercial. An object is valuable in the former sense of the term, in the proportion that it possesses qualities of utility or desirableness; while, in the latter, or commercial sense of the term, an object is valuable, not in proportion to its utility, but in proportion to the expense necessary to be incurred in producing it; assuming, however, in the latter case, that there is no cessation of demand for it. Water and air are valuable in the first sense of the term, for they are the most *useful* things in the world; yet they possess no commercial value, because we obtain them without incurring any expense. Gold and silver, on the contrary, have but very little natural utility; yet they possess great commercial value, because of the expense which must be incurred before they can be obtained.

Again, gold is about fifteen times dearer than silver, not because its intrinsic qualities are about fifteen times as valuable, but because fifteen times more expense must be incurred to produce an ounce of gold than is requisite to procure an ounce of silver. Sliver was more valuable before the American mines were discovered, because more expense was incurred in procuring it. Before those mines were opened, ten ounces of silver were equivalent to one ounce of gold, while now, in consequence of the less expense in raising silver from the mines, silver has so much fallen in commercial value that it takes between fifteen and sixteen ounces of silver to be equivalent to an ounce of gold.

We therefore see that the commercial value of commodities is in proportion to the expense incurred in producing them. Generally speaking, this expense will be the *minimum* of their value; for unless producers get at least this expense returned to them, they will cease to produce these commodities.

The expense thus incurred in the production of commodities, has been by some authors called Labour, by others, Corn, or Subsistence; the same thing is

meant, however, whichever term be used—the corn, or subsistence, being but the wages or remuneration for the labour. As the value of all commodities has been found, therefore, to be, in the long run, in precise proportion to the quantity of labour or corn expended in their production, they, that is, labour and corn, have been severally called "Standards of Value," by which is meant, that these are the things to which all parties naturally and instinctively refer, in determining the value of the various productions which are offered for exchange. The man who labours in the production of any commodity, always practically refers (though perhaps he is not aware of it) to corn or subsistence as the standard by which he determines the value of his productions. He must be supported by the produce of his labour; and he will therefore demand as much for it as will procure him a comfortable subsistence. Gold and Silver are not to him Standards of Value, for it matters little to him how much of the currency of the country he obtains for his workmanship. What is of importance to him, and what he looks after, is, that he gets a price which will produce him a proper quantity of subsistence, or the necessaries of life. The question is not whether he gets a shilling a day or a sovereign a day; but whether what he does get will procure him a *whole* loaf or only *half* a loaf—the standard he refers to, therefore, is Corn, or Subsistence.

Again, it will easily be seen that gold and silver are not Standards of Value; for it never conveys any accurate information to our minds as to the degree in which a producer is remunerated, if it be merely stated, that he obtains so much gold or silver, without a further reference to corn or subsistence. It would be useless to tell me that one man got 2*s.* 6*d.* a day in one country, and another man 5*s.* a day in another country, unless I knew the quantity of corn, or subsistence, which these respective sums would purchase in these different localities. I could not, without

great danger of error, determine that the man who obtained 5*s.* a day was twice as well paid as the man who only obtained 2*s.* 6*d.*—yet this would inevitably be the case, were gold and silver the natural standards of value. So far from this being necessarily the case, I might find that the man who only had 2*s.* 6*d.* a day was better paid than a man who had 5*s.*; as the 2*s.* 6*d.* of the former might obtain for him a greater quantity of subsistence than the 5*s.* of the latter.

Corn is, therefore, as was acknowledged by Mr. Horner in the House of Commons, and as is insisted upon by various erudite authors upon this important subject, "the great and paramount Standard of all Value;" inasmuch as it is the ultimatum, or the last thing to which reference can be made, to determine whether producers are well or ill paid for their productions.

We can further illustrate the nature of the *Standard* of Value by shewing the difference between a Standard and a Measure. This difference will be clearly seen, if we examine the positions which Standards and Measures occupy with reference to the determination of other properties of objects, such as length, weight, or capacity.

It would appear, that when mankind first set about the invention of weights and measures, they began by seeking out some natural product which contained the particular quality they wanted in the most invariable degree; and this they constituted the *Standard* of that quality. For instance, when our English measures of *length* were first invented, it appears as though the barley-corn had been selected as the Standard of length. But though the barley-corn was fixed upon as the *Standard* of length, yet it could not be used as a *Measure* of length; for the inconvenience would have been too great to have measured the length of every thing with barley-corns. *Measures* were therefore made, representing certain determinate quantities of the Standard, such as an inch, equal to three barley-corns; the foot, equal to thirty-six barley-

corns, or twelve inches; and the yard, equal to 108 barley-corns, or three feet. Here we see that the barley-corn was the *Standard* whence all these measures were derived; while the *measures* merely represented certain determinate quantities of the Standard.

Again, when measures of *weight* were wanted, some natural product was sought for, which contained a certain weight, to be the Standard from whence to derive these measures of weight. The carat, therefore, a kind of bean which grows in the East, and which, we are informed, is very invariable in its weight, was selected. This carat, divided into four parts, formed four grains, each of which was, as nearly as possible, the weight of our present grain troy; from these were formed the pennyweight, equal to twenty-four grains; the ounce, equal to twenty pennyweights; and the pound, equal to twelve ounces. The carat, therefore, was the *standard;* while these grains, pennyweights, ounces, and pounds, were *measures* representing certain determinate quantities of this Standard.

It will be seen, therefore, that the Standard was some natural object, which, containing the quality required in a very invariable degree, was fixed upon and set up as the ultimate authority, by appeal to which all discrepancies and disputes might be finally determined. By reference to this, all errors or variations in the measures derived from this Standard, and which might either have occurred from lapse of time, or from fraudulent arrangements, could be exposed and corrected. Unless some certain and unchangeable standard were thus fixed upon, there would be no security that justice would be done to various parties in the lapse of years. If I were to leave by will 100 yards of cloth to be given annually to the poor of a certain parish, my intention might be perverted or completely frustrated by an alteration of the yard measure, unless there were some unalterable Standard to which I might make reference. The proviso, however, that the yard by which the cloth

should be measured should be of the standard of 108 barley-corns in length, would secure the fulfilment of my intentions; because this would be a natural Standard of length, not alterable by human caprice or fraud. By thus first selecting a natural object to serve as an invariable Standard, and then, secondly, constituting measures of more convenient forms, and representing more convenient quantities of the natural Standard, every thing was attained which was necessary, both for unchangeableness and convenience.

We think that the above explanation will make the difference between a Measure and a Standard sufficiently obvious; and that it will be manifest that the reason why the natural Standards were not used as measures was, that they would have formed very inconvenient measures. Now, this is precisely the case with regard to corn; for, though corn is the natural Standard of value, yet it would be inconvenient in the greatest degree, to use it as a *measure* of value. Though it is indubitable that the value of every ordinary production will, in the long run, be in precise proportion to the quantity of corn consumed during the various stages of its production, yet great inconvenience would be experienced if all payments were made in corn:—these inconveniences, indeed, are so obvious, on the least reflection, that it is quite unnecessary to point them out; and it will be sufficient to say, that, as in order to avoid the inconvenience of measuring cloth with barley-corns, and weighing lead with carats, measures of length and weight were instituted—so, in order to avoid the inconvenience of making payments in corn, other measures of value have been substituted, of which gold, silver, and copper have hitherto been the principal in all civilised nations.

There is, however, another, and that the most important, reason why corn cannot serve as a practical *measure* of value, which is, that though corn is quite invariable in value in the *natural* sense of the term,

and invariable enough in *commercial* value, on an average of ten or twenty years, to serve as a standard, yet, from season to season, it is so very variable in its commercial value, that equal quantities of corn would quite fail in expressing equal commercial values *from year to year*. By substituting other measures, therefore, of more steady *annual* value, which measures shall represent the *average* quantity of corn which is the proper equivalent of goods or services, prices are maintained at a steadier rate than if a fresh price in corn had to be fixed upon every year; and, taking one year with another, producers may by this plan be as fairly remunerated. Dr. Adam Smith says, upon this point, "From century to century, corn is a better measure than silver; . . from year to year, on the contrary, silver is a better measure than corn." Upon which Mr. Taylor remarks: "All that Dr. Adam Smith failed to discover was, that by each becoming a check on the other, the advantages of both might be combined."

Having thus explained the term "Value," and made sufficiently manifest, we trust, the nature of a Measure of value as distinct from a Standard of value, all that we have to do, in order to complete this part of the subject is, to show how a Circulating Medium operates to *measure* value.

There is but one principle necessary to be carried out in all exchanges, namely, the principle of Justice. As no man ought to obtain an undue advantage at the expense of another, two things have to be guarded against in all dealings between buyer and seller: these are, that the seller shall not obtain more of the circulating medium for his commodities than is the representative of their value, nor the buyer be able to obtain them for less. But how is this end to be obtained? How can the value of the various goods offered for sale in the market be ascertained? The author to whom we have already referred, Mr. Taylor, and to whom we are greatly indebted for his able

analysis of the currency question in his "Currency Catechism" and other works, has provided us with the answer to these questions. His remarks are to the effect, that there are two principles, which, operating from different quarters upon prices, cause those prices to run in the proper medium track. These two principles are, *necessity* and *competition*. They act in the same way, and produce the same results, as philosophers tell us that equal forces, acting at right angles, produce; namely, that the body acted upon by these forces will move neither in the direction of one line of force, nor of the other, but will move in a diagonal line, being a just medium between the two. *Necessity*, as we have shewn, when describing the Standard of value, will lead a man to require at least as much corn, or subsistence for his productions, as will support him comfortably. He cannot get less than this for any considerable time together, without feeling himself so much inconvenienced, that he will become assured he is not remunerated for his productions, and he will either require more remuneration, or abandon that labour which does not furnish him with a subsistence: thus, if any one branch of productive industry is found not to recompense those employed in it, fewer persons will engage in that branch, until the number of people employed in it is so much diminished that the remainder will get remuneration.

But producers will not only get as much for their productions as the value of them, they will also endeavour to obtain more if possible. How is this to be prevented? We answer: by the operation of the other principle we named,—*Competition*. If a man ask too much for his goods, the person who intends to buy will go to others who are more reasonable in their demands; and there are always plenty to be found in every branch of trade, who will sell for the lowest possible remunerating profit. Besides, if one branch of productive industry be found to be parti-

cularly profitable, others will speedily enter into it, and bring down the undue profits of those heretofore employed in it. This principle, of course, will not apply when there is a monopoly in any branch of trade, because competition then is necessarily excluded; but in all ordinary branches of trade where there is no monopoly, "Necessity" will operate, on the one hand, to ensure a sufficient price; while "Competition" will operate, on the other, to prevent an unduly high price: so that the effect will be, that prices will range in the market at a fair and equitable rate.

But it may be said, that, however theoretically just the above observations may be, experience shews that this desirable result is not generally effected—that prices do not range at that fair and equitable rate at which they ought to range; but that, on the contrary, the greatest fluctuations are continually taking place. We acknowledge that this is too truly the case, but this is what we find fault with in our present system of currency. We have not, in the above remarks, described what *is*, but what *ought to be*. Under the present system, wealth, unfortunately, is not the sure and unfailing reward of persevering industry and economy, which are the only legitimate sources of wealth: it is the reward of speculation and gambling. The men who can foresee and take advantage of the fluctuations which occur, draw to themselves that wealth which has been produced by honest labour or scientific skill; while the parties who ought to have enjoyed it are, from these very fluctuations, deprived of the fruits of their labour. This is a state of things which ought not to be; for it tends to sap the very foundations of all that is truly honorable and valuable in our national and commercial character. We must not, however, enter more fully into this, as it would, we fear, approach too near the arena of politics for our present purpose; we shall, therefore, leave this part to be worked out by the reflections of our read-

ers, and shall now proceed to notice the second quality which a circulating medium must possess, namely, that quality which renders it a *security in hand* for value parted with.

The possession of this quality is essential to any kind of circulating medium; for unless it be invested with the capacity of infallibly securing to the holder the value which it indicates, people will not part with their property to become possessed of it.

This may be effected, either by making the circulating medium itself possess the value which it indicates; or, secondly, by conferring on it the power of obtaining that value which is not inherent in itself. In the first case, a system of *barter* will be established: in the second, a *monetary* system. In the majority of instances, the circulating medium has itself been of the actual value which it was supposed to betoken; but in these instances, the circulating medium has not been "Money," as it is generally and erroneously called, but a "Commodity;" and the exchange effected has been one of pure barter—a commodity for a commodity. Money, as its name strikingly denotes, is more the *sign* or *token* of value than value itself, and is as mere an instrument as a yard measure is: when, therefore, exchanges are effected by means of instruments, which themselves possess the value exchanged, the system is a system of barter and not of money; the only difference between it and common barter being, that a more convenient commodity is substituted in payment for all other commodities.

The first great danger to which a community is exposed, whose circulating medium for domestic purposes is a commodity possessing intrinsic value, is, that a sudden demand for this commodity for exportation produces a general convulsion throughout a country, and puts trade to a stand-still. Let us suppose that the commodity of which all the yard measures in England were made was *silver;* that it

became suddenly demanded for exportation; and that, consequently, these yard measures were abstracted from the people and exported to other countries—What a stop would be put to all business where yard measures were required! Suppose, again, that the principal part of the weights in London were suddenly sent abroad, in consequence of a demand for the commodity of which they were composed, what confusion and perplexity would be universally experienced! And yet this is what is experienced, in a greater or less degree, every year or two with regard to the *measure of value;* and all because it possesses *intrinsic* value. The instrument for carrying on trade is suddenly withdrawn, causing not only the perplexity we have mentioned, but also those fluctuations in prices which unjustly deprive many men of their property, and transfer it to those who have no just title to it. Even if it be necessary for carrying on our intercourse with foreigners, to have a currency possessing intrinsic value, in which we may pay any balances due to them, it is very questionable whether such a currency be necessary for domestic transactions.

The second inconvenience arising from an intrinsically valuable currency is, that though it may not be wanted for exportation, yet it is always liable to be hoarded upon occasions of political alarm. This is just as bad in its temporary ill effects as though the circulating medium were sent out of the country; it being equally withdrawn from its legitimate sphere of action, and causing the same fluctuations in prices.

A third inconvenience arising from such a currency is, that it is utterly unfit to be combined with the only system of Taxation likely to raise such a revenue as this country requires, namely, a system of *indirect* taxation; but as this point is more important than it appears at first sight, and one which deserves to be closely investigated, we shall devote our next letter to its examination, more especially, as the "Dilemma"

in which we are placed arises entirely from our having adopted a system of currency and a system of taxation quite opposed to each other in principle, but neither of which we seem inclined to alter, until absolutely compelled to do so by the force of circumstances.

LETTER III.

THE DILEMMA: OR WHICH SHALL WE ALTER?

"Why this, the richest country in the world, should be unable to effect that simplicity in regard to its currency, which is found to be of easy attainment by the poorest states, is an enigma very difficult of solution."—*G. R. Porter's Progress of the Nation.*

We explained in our last Letter the meaning of the terms "Value," "Standard of Value," and "Measure of Value," and shewed that the two principles of Necessity and Competition would always determine the fair price of all ordinary productions, provided that there was no undue influence from monopoly, or from a fluctuating system of currency. We also shewed that a circulating medium had to sustain two characters, that of a *measure of* value, and that of a *security for* value; and that it might be invested with this latter character either by making it intrinsically valuable itself, or by investing it with the power of obtaining the value it indicated. We further proceeded to point out the comparative inconveniences attending these two methods; and with regard to an intrinsically valuable currency, shewed that it was,—firstly, liable to be exported,—secondly, in danger of being hoarded,—and, thirdly, we remarked, that it was totally unfit for carrying into effect the most perfect system of taxation, viz. a system of INDIRECT Taxation. It is to this important point that we have to direct attention in the present Letter; for to the *discrepancy* between our system of *indirect* taxation

and our *intrinsically valuable* currency, do we ascribe the difficulty of effecting that simplicity in regard to our currency, which the author of the above extract regards as so enigmatical.

It is evident, from what we advanced in our last Letter, that if commodities are brought to a free market, the price which they will ordinarily fetch is that which they are intrinsically worth, and no more. No greater quantity of the circulating medium will be given for them than represents their intrinsic value. This is a law which universally prevails where free competition exists; and as long as things are allowed to go on in their natural course, uninterrupted by artificial arrangements, this price will be all that is required in order to remunerate producers.

But it is quite possible that this natural price may, under certain circumstances, not only be utterly inadequate to afford the producer a living profit, but even to return him the prime cost of his goods. This will happen if other expenses are saddled upon commodities, not being, at the same time, necessary to their production; such, for instance, as duties imposed upon them in order to afford a revenue to the state. If a commodity be intrinsically worth the quantity of gold or silver contained in 20*s*., this 20*s*. will be the usual price under all ordinary circumstances; but suppose government were to lay an excise duty of 5*s*. upon this commodity, which duty was collected from the maker of this commodity before it was allowed to be sold, it is evident that the producer of this commodity must get at least 25*s*. in the market for it, namely, 20*s*. for its value, and 5*s*. for the tax he has paid upon it—unless, indeed, the gross injustice be intended to be committed, of making the producer pay the tax, and thus of throwing all the burden of taxation upon him, and the producing classes under him. This injustice, however, is always professedly disclaimed: and it is always acknowledged that the duties levied upon commodities are intended to be

paid by the consumers of these commodities, and not by the producers; and that this method of taxation is only resorted to because it is found that a state can raise a greater revenue by making people pay taxes on the commodities which they consume, than it can by making them pay a direct money contribution.

It appears, therefore, from the illustration we have given above, that prices ought to range at very different rates, according to the system of taxation pursued; that a commodity, which may be sold for 20*s.*, under a system of *direct* taxation (such as a property tax), may require a price of 25*s.* under a system of *indirect* taxation (where duties are levied on goods), without yielding the producer more profit in the one case than in the other.

Now, this additional price cannot be obtained if the currency possess intrinsic value; for how will a producer be able to get the gold or silver contained in 25*s.* for his commodity, if that commodity be only worth the gold or silver contained in 20*s.*? The *value* of the commodity is not increased by the tax put upon it. That value is constituted by the quantity of corn which it has cost, and which is represented by a proportionate quantity of the measure of value. Neither of these is augmented by the State choosing to levy a duty of 5*s.* upon the commodity. The *intrinsic value* remains precisely the same, whether the State levies a duty of 5*s.*, 10*s.*, or 15*s.* upon it; and if there be no alteration in the System of Currency, the *price* will remain precisely the same, provided that the market is a free one, and open to the competition of those who can produce these goods without having to pay such a duty. People will not give 25*s.* if they can obtain the same kind of commodities for 20*s.* In all those kinds of goods, therefore, that are open to foreign competition, producers will lose the taxes which they have advanced, if they are required to obtain an additional quantity of gold or silver for their goods; and this will be the case,

not only with regard to goods sold abroad, but to those sold at home also, for people are not generally so patriotic as to prefer home-made things at an increase of 25 per cent. in price.

But it may be said, that as far as the difficulty of supplying a *foreign* customer is concerned, government may find a remedy by allowing a drawback of the duties upon all goods intended for exportation. This is all very well as far as it goes; but it by no means reaches the case: for it must be recollected that the direct duty upon any goods is but a small part of that taxation which *every* commodity is obliged to bear which is manufactured in a country where indirect taxation prevails to a great extent. The great weight of taxation is more especially constituted by the duties payable upon every thing used in the production of a commodity. Corn, malt, hops, tea, sugar, soap, candles, timber, bricks, glass, and a hundred other things which men must be supplied with while they are producing commodities, all form items in the taxation account, and are not allowed for in a drawback of the direct duty levied upon any article in a manufactured state. The producer will therefore lose all these duties, if he even get the direct duty taken off.

And then, with regard to the supply of the home customer, it may be said, that Government can quite secure the manufacturer at home a fair price, as it can protect him by laying a Customs' duty upon all foreign articles of the same description. Not so. This is a mistake altogether. We can certainly impose heavy Customs' duties upon foreign goods in our ports, but what will be the result of this? Why, that foreigners will impose equally heavy duties upon our goods in their ports: and so we shall lose in one way as much as we shall gain in the other. If we impose these duties to equalise prices in our own country, our manufacturers will have to enter their markets under an additional disadvantage, namely, that of

having to pay heavy duties before they can sell their goods even at low foreign prices. Every country will take care of its own interests; and it is absurd to suppose, that when we require duties to be paid upon foreign goods, foreigners will not retaliate and make us suffer the same disadvantage.

It is very evident then, that with reference both to goods sold in foreign markets, and to those sold at home, producers will infallibly lose the taxes they advance, if they have no other method of regaining them than that of obtaining as much more gold or silver as these taxes amount to; for the *ordinary* course of trade will only return them as much of these metals as is equal to the *intrinsic value* of the goods, irrespective of the tax; that is, provided, as we said before, that the goods are of those kinds which are open to the competition of foreigners.

We entreat particular attention to this part of our subject; for here it is that all our difficulties arise. The abstract question of Currency is a very simple one if left to itself; but it is its connexion with a system of *indirect* Taxation that makes it so difficult a matter. The simple state of the case is, that certain goods are worth intrinsically 20*s*., and that Government, by indirect taxation, makes it absolutely necessary for the producer to get 25*s*. for them. Now, we have shewn that under an entire metallic system of currency, this is impossible. If a currency composed only of the precious metals could be acted upon, producers could only obtain the 20*s*., and must submit to the entire loss of the 5*s*. taxation, which in this case would be a downright fraud upon them. But this is not entirely the case, though it is so in a great degree, for we have a currency composed partly of metal and partly of paper; and the paper which is used frequently permits producers to regain some part of the taxation they have advanced, if not all. Hence arises a continual struggle for the ascendancy of one or the other of these two prices—sometimes one gets the

upper hand, sometimes the other. When producers succeed in getting the markets up to the remunerating price, viz. 25*s.*, foreigners will no longer take these goods in payment, but will take our gold currency instead, the metal of which in 25*s.* gives him a profit of 5*s.*, being the amount of the tax. On the other hand, if goods are kept down to the losing price, 20*s.*, we keep our gold, but we break faith with the manufacturer and the productive classes, as we prevent them from regaining those taxes which they have advanced upon the acknowledged pledge of the State, that they shall be repaid them in a higher price for their goods.

Any person may be fully convinced that this is the fact, if he only pays attention to the daily remarks made in the commercial world and by the public press, during a period of embarrassment in the money market. When the exchanges are "against us," as the phrase is, and there is a scarcity of bullion in the Bank, from its having been taken abroad, the general remark is, that we shall not be able to get the gold back again unless the export trade revives, that is, unless we can get foreigners to buy our goods. But foreigners will not buy our goods at 25*s.* instead of 20*s.* The meaning therefore is, that goods must be forced down from 25*s.* to 20*s.* To accomplish this, all kinds of restrictive and coercive measures are put in force, and when it *is* accomplished, the gold returns. We are then told that "things have righted themselves," and that the currency is "restored to a healthy state," when, alas! alas! this healthy state of things means nothing more nor less than that the measures taken to deprive the manufacturer of the 5*s.* taxation price have *succeeded.* Thus the State first imposes duties upon goods, on the promise that they shall afterwards be repaid by the consumers of them, and then, by a system of currency which is only fitted for a system of *direct* taxation, prevents this promise from being fulfilled.

We think it will now be very obvious, that all this evil arises from the system of taxation and the system of currency not being suited to each other; that they are incompatible with each other, and cannot be made to harmonise. The error does not so much consist in following either the one or the other, if considered separately and by themselves; but it consists in combining the two. Alter either of them, and the difficulty disappears. *Alter the system of taxation*, and collect the *entire* revenue by a direct tax upon property, and the goods will not require a higher price than 20*s*., as the expense of producing them will not have been enhanced by duties levied upon them. The manufacturer will then be able to sell them for their intrinsic value, and gold will not go abroad, even under such a system of currency as the present. Or, on the other hand, leave the system of taxation alone, and *alter the system of currency* by allowing gold and silver to rise equally in price with other commodities, and then the manufacturer will be able to obtain the higher price which he needs, without requiring more gold or silver than is equal to the intrinsic value of the goods. This, though a nominally higher price, will be just as good to a producer as an actually higher price in gold or silver; for though his expenditure may increase also, yet his goods will rise to a price sufficient to afford him a fair remuneration.

Either of these alterations would restore the equilibrium of price between the precious metals and other commodities; for, after all, nothing has to be effected but to prevent the natural and relative values of things from being disturbed. Gold, Silver, Wheat, and all other commodities, possess a natural value in relation to each other; this value being, as we have before remarked, the amount of the expense necessary to be incurred in producing them. Now, all that is wanted is, that these natural and relative values shall not be disturbed—that whatever system of Currency is

adopted, all commodities shall be allowed to exchange with each other according to their respective values. It is the infraction of this simple and palpable principle that deranges our currency, and causes the principal part of our commercial embarrassments. By indirect taxation we cause every thing around us, except gold and silver, to rise in price. These being prevented rising by our fixed standard of currency, become relatively cheaper than other commodities, and are taken abroad in preference to these commodities. Did gold and silver, which are also commodities, rise equally with other commodities, in a *currency independent of them all*, we should experience no inconvenience, and indirect taxation might be continued. Or, on the other hand, were *direct* taxation substituted entirely for *indirect*, no commodities would rise beyond their natural price, and the relative values of these and the precious metals would remain undisturbed. But as these subjects are better apprehended when a short illustration is given, we shall shew how the natural values of commodities are distorted by such a system as we have been condemning: people will then cease to wonder that the Bank should so often be in difficulties for want of bullion, and that our currency system should be so frequently deranged.

Gold, Silver, and Wheat are found to exist on the average in all lightly taxed countries, in about somewhat the following proportions to each other:—1 quarter (8 bushels) of wheat is equivalent in value to $8\frac{1}{2}$ dwts. of gold, and $6\frac{1}{2}$ oz. of silver; these respective quantities requiring on an average an equal amount of labour to produce them.

Now, according to the Standard of our Currency (namely, 3*l.* 17*s.* $10\frac{1}{2}$*d.* for the ounce of gold), $8\frac{1}{2}$ dwts. of gold will be about 1*l.* 13*s.*; consequently, 1*l.* 13*s.* of our currency will be the natural price of 1 quarter of wheat; $8\frac{1}{2}$ dwts. of gold; or $6\frac{1}{2}$ ounces of silver.

But through indirect taxation and monopoly, the quarter of wheat rises to 50*s.* or 60*s.*, while a value in gold and silver, equal to the value of the quarter of wheat, is kept as before at 33*s.* So that in two things of equal natural value, we demand for the one 50*s.* or 60*s.*, while for the other we ask only 33*s.* If a foreigner, now, have his choice which he will be paid in, can we doubt that he will take the cheapest article, gold? Is it likely that he will take wheat at 50*s.* or 60*s.*, when we offer him the same value in gold for 33*s.*? especially as the latter is so much more portable, and in all countries so desirable a commodity.

Now, as wheat is the staple article of food in this country, and forms a large item in the expense of every thing that is manufactured, every thing produced here must participate more or less in the disadvantages arising from this relative distortion of price. When producers are fairly remunerated, their goods must always be charged such prices as will make it more advantageous for the foreigner to take gold than goods. At these times, then, the gold is sure to go abroad, and it cannot be got back again unless prices be forced down to the untaxed level—and we may be assured, that when we find that the export trade begins to revive, so that the foreigner takes goods instead of gold, prices are in process of being forced down to this level, and that that portion of price which arises from indirect taxation is being unjustly wrenched from the productive classes.

But it may be objected, If this statement be really true, how is it that our producing classes have contrived to bear up against this disadvantage for so many years? We answer, they could not have done it, had it not been for the aid they derived from superior machinery, the producing powers of which were equal, it is said, to those of some millions of men. As long as they maintained this great superiority over other nations, our producing classes had a power which sustained them in spite of the burden which

oppressed them; but woe to our manufacturing superiority, if, when other nations equal us in productive power, we continue an intrinsically valuable currency, combined with a system of *indirect* taxation.

If our argument be sound (and we never met with any person yet who could shew that it was fallacious), an intrinsically valuable currency cannot act properly with a system of indirect taxation; and as we are, at the present time, attempting to carry out these two systems together, though with the ill success that our commercial panics plainly testify, we make bold to say, that the remedy *must* be found in one of the two following lines of procedure, namely:—either,

1. All indirect taxation must be repealed, and all monopolies, such as corn laws, &c. be abolished; and then the entire revenue must be collected by direct taxes on property: or,
2. Indirect taxation being left just as it is, a system of currency must be adopted which will allow gold and silver to rise in price equally with other commodities.

In either of these cases, the natural and relative values of all commodities will not be disturbed; and we shall be free from those constant fluctuations which at present place the property of every commercial man in jeopardy.

While however we perceive, that the evils we experience might *theoretically* be remedied, either by an entire substitution of direct taxation for indirect, or by a complete change in the principles of our monetary sysem; yet we feel very much afraid that these evils could never *practically* be remedied by the first of these two methods. Forty-five or fifty millions per annum, could never, in our opinion, be raised by property or income taxes. To attempt one half of it would convulse the nation from end to end, and shortly unseat any ministry that attempted to carry such a measure. If there were no other reason, the very lowness of price to which all commodities would be

brought by a repeal of all indirect taxation, would be equivalent to adding ten or fifteen millions a year to the taxes. The more prices are lowered, while the national debt and its interest are maintained at an unalterable amount, the heavier this debt and this interest become. For this, among other reasons, we are persuaded that the only *practical* remedy is the adoption of a currency which will allow gold and silver, as well as all other commodities, to assume those relative positions, and to fetch those prices, which the amount of labour embodied in their production entitles them to.

LETTER IV.

THE KIND OF CURRENCY WHICH IS WANTED.

"If those advantages which one country may make upon another *in the mystery of exchanges* and valuation of coins be not thoroughly discovered and prevented by such as sit at the helm of the state, it may fare with them after much commerce, as with some bodies after much food, that, instead of growing full and fat, they may pine away, and fall into irrecoverable consumption."—*Greaves.*

THE conclusion we came to in our last Letter was, that an *intrinsically valuable* currency may be maintained in a country, if *direct* taxation be adopted; but that, if *indirect* taxation be followed, such a currency cannot be maintained without throwing the burden of taxation upon the labouring classes, and producing continual derangements in the commercial world from the loss of that currency, which will be sure to be exported. We now turn our attention to the consideration of a Currency NOT POSSESSING INTRINSIC VALUE, which would be what the name "Money" imports, a *sign*, *token*, or *admonition* of value.

This species of currency is not open to the kind of objections to which a currency of intrinsic value is subject, and which we enumerated in Letter II.

It is not in danger of being exported; it is not nearly so liable to be hoarded; and it is not unfitted for a system of *indirect* taxation, which is the only kind of taxation likely to raise a revenue of 50,000,000*l.* per annum.

What, then, are the objections to the adoption of such a system as this?

The principal objection entertained to a currency not possessing intrinsic value—or, in other words, to a paper currency—is, that it may depreciate; while a metallic currency, it is said, cannot depreciate.

Now, the very thing which forms the perfection of the paper currency is, that it *can* depreciate in the degree that taxation requires, without being withdrawn. Its capability of doing this would protect us from that enormous loss which we sustain in our exchanges with foreigners, and which is exhibited in the great excess of our exports over our imports.—But as to a metallic currency not being capable of depreciation, this is a mistake altogether. Any currency, metallic or paper, *depreciates* when prices generally *rise* in it, for these are convertible terms. If we say that things have become generally dearer, it is just the same as saying that the currency has become cheaper; for in proportion as commodities are dearer in relation to the currency, the currency is cheaper in relation to the commodities. Those persons, then, are very much mistaken who suppose, that, if we have a gold or silver currency, we are secured against a depreciation or cheapening of it. If producers succeed in getting the taxation price, the currency *must* depreciate. England has at this time a highly depreciated currency, if it be compared with the standard of value, *corn;* for, one pound sterling, which is naturally equivalent to nearly *five* bushels of wheat, will not purchase at this time more than *two bushels and a half.* This would be but of little consequence to us if all our business transactions were confined to our own country, as prices would *generally* rise and counter-

balance it; but the evil of thus cheapening or depreciating (compared with other things) a currency of *intrinsic* value is this, that our lower estimation of it is not participated in by foreigners, who will take advantage of the lessened value which we put upon our gold currency, and take it from us rather than the goods, which, compared with it, we *ap*preciate. They are very glad to be allowed to come and sell us goods at these *ap*preciated prices, and then to take payment in gold at a *de*preciated price. For instance; suppose that a certain quantity of wheat is of the same value naturally as an ounce of gold, or nearly 4*l.* of our currency; and that one of these two equal values, the wheat, rises in our markets through taxation and monopoly to 6*l.*, while the other equal value, the gold, is not allowed to rise beyond 4*l.*, what is the consequence? Why, that the gold is *depreciated*, in comparison with the wheat, and that the foreigner comes here and sells his wheat for 6*l.*, say in bank-notes, and then goes to the bank and buys the other equal value, the ounce of gold, for 4*l.*, so that if he choose to turn the whole of his 6*l.* into gold, he can obtain *one ounce and a half* of gold for the wheat, which is only worth *one ounce*. In this way, we may be paying foreigners 6*l.*, while they are paying us only 4*l.* for *equal values:* for, mark you, the foreigner will not give us the same appreciated prices in his markets which we give him in ours. We may buy wheat, if we choose, of him at 60*s.*, 70*s.*, or 80*s.* a quarter, and he will be glad to get it, but he will not allow us these kinds of prices in his markets. We must sell our goods there for what similar goods are sold at, or else not sell them at all, and we lose all our gold in consequence. It appears, therefore, that by the currency not actually depreciating in the foreign market, while it is depreciated in ours, we may sustain the most enormous losses in our exchanges with foreigners: and that these losses do occur, is plainly testified by the Custom House tables; for they shew that if we buy goods

of foreigners to the value of 50,000,000*l.* per annum, we are obliged to send them in return 80,000,000*l.* worth to pay for them. The reason is evident: we buy of them frequently at the rate of 6, while we sell to them at the rate of 4—so that if foreigners sell us *two* articles at 6*l.* each, it is necessary for us to send them *three* of the same value (if we only obtain 4*l.* for each), in order to strike a balance.

With a currency not possessing intrinsic value, this disadvantageous exchange could not occur, for the currency could *really* depreciate—that is, gold could rise in it as well as goods, and foreigners would only get a nominally higher price for their goods, instead of the really higher price which they obtain now. Let us continue the illustration we have just given, and suppose that the gold, as well as the wheat, had risen to 6*l.* in a currency not intrinsically valuable. The foreigner would then come and sell his wheat for 6*l.* in this currency; but when he went to turn it into gold, he would find that he had to pay the 6*l.* for the ounce of gold; so that he could not unduly profit at our expense, for he would only obtain for his wheat the quantity of gold that it was worth. He would no longer have the privilege of selling his goods to us at a high price, and then of purchasing gold at a lower price by 40 or 50 per cent;—justice, however, would be done him; for he would sell for 6*l.*, and buy for 6*l.*, so that it would be a fair exchange of equal values.

The argument, then, which shews that a paper currency may depreciate, is that which we consider to be one of the strongest that can be urged in favour of its adoption. And so far from any fraud being perpetrated by the currency depreciating in proportion to the taxation, it is, in fact, the only *just* course that can be pursued. Consumers of commodities, it is acknowledged, ought to pay the duties on them, and not the producers; and whether they pay these duties by paying a really higher price for their goods, or by

having the value of their pound sterling depreciated, is but of little consequence to them. If a man have to pay 10*l.* a-year out of an income of 100*l.*, it matters little to him whether he pay 10*l.* directly to the Government, leaving only 90*l.* for himself, or the value of each pound be diminished 10 per cent.; for, in the latter case, though he has the same number of pounds he had at first, they are not worth more than ninety of the pounds he possessed before the tax was levied. The pound sterling, in a paper system, would depreciate in precise proportion to the weight of taxation; or, what is just the same thing in other words, the prices of goods would rise, in a paper system, in proportion to the amount of duties charged upon them; but this, instead of being a fraud, would only do justice to our producing classes, while, at the same time, it would prevent derangements in our monetary system.

Many people, however, seem to entertain the opinion, that there would be no limit to the depreciation, that is, that there would be no limit to the rise of prices. They acknowledge the justice of returning to producers the duties they have advanced to the Government; and, if they were assured that prices would rise no higher than was necessary to accomplish this sole object, they would be in favour of its adoption. They think, however, that prices are stimulated so exactly in proportion to the issues of paper, that supposing, for argument's sake, there could be an unrestricted issue of paper, there would be an unlimited rise of prices. Now, this we humbly conceive to be an error—an error, however, which prevails very extensively, and which calls for correction. It is true, that we have always found that when the currency has been increased, prices have risen, but it does not necessarily follow that this should go on *ad infinitum*. To know how long this result would accompany an extension of the currency, we ought first to ascertain what is the *cause* of the rise in price; for it does not follow, that because two things happen

contemporaneously, the one is the *cause* of the other. The extension of the currency is not, if we may so speak, the *active* cause of the rise in price, but the *permissive* cause. Prices generally have risen when the currency has been increased, because, under the present system, they are generally under the height to which they would rise and ought to rise if the currency permitted them: but there is a limit to this. That limit is a *remunerating* price to producers; for *competition*, as we stated in our second paper, will always prevent things rising to a higher price than this.

The error committed here by many people is capable of a familiar illustration. It is well known, that, by the pressure of the atmosphere, water will rise in a a vacuum (the barrel of a pump, for instance) to about 33 feet. Now, suppose that the water in a certain vacuum had always been prevented, by the interposition of a plug, from rising higher than 10 feet, it would follow, that when this plug was raised 1, 2, or 10 feet higher, the water would immediately rush up and fill the additional vacuum created. Now, had the plug never been entirely withdrawn, and people had not known what was the cause which produced the rise of the water, they might have concluded, that the water would rise *ad infinitum*, and that it was necessary to interpose a limiting power, to prevent it overflowing and deluging every thing around. But it is obvious, that the removal of the plug was not the *cause* of the rise of the water, but was only that which *permitted* it to rise: the *cause* was the *weight of the atmosphere*, and it ceased to act when an equilibrium was gained. So, in like manner, the extension of the currency is not the *cause* of the rise in prices, as many think, but is only that which *permits* it: the cause is the *weight of taxation*, and the rise will cease whenever a price, which will form an equilibrium with the weight of taxation, is obtained. *Competition* will infallibly prevent prices rising higher than this.

But it may be asked (though this is only starting the same objection in another form), If you would have gold and silver rise in a paper currency, and the paper pound is not to represent a *certain and determinate* quantity either of gold or of silver, what is it to represent? What will the English pound be?* We answer, that the gold pound itself is only the measure and re-

* Singularly enough, Sir Robert Peel has (since these letters were first written) put this precise question to the Birmingham Chamber of Commerce, and almost in the very same words; and the importance of the question will warrant us in inserting some additional remarks, with a view to its further elucidation. It is evident that Sir R. Peel has not yet surmounted the common but erroneous impressions which prevail concerning the currency, viz:—1. That the pound ought to be, as nearly as possible, a fixed and invariable value. 2. That a gold pound is the best pound, because gold, of all commodities which could be used, is the least liable to alteration, so that a fixed weight of gold will more steadily express any given value, than a certain quantity of any other commodity. 3. That the main objection to a paper pound is this—that it would not maintain an invariable value.

Now the correctness of these impressions we deny *in toto*. It is on these very points that we think Sir R. Peel to be so much in error. If we have *indirect* taxation, as at present, we contend that the pound must *not* be a *fixed*, but must be a *variable* value; varying with the degree that indirect taxation is levied. If people will but think for a moment, they must see the correctness of this assertion. The more taxation there is put upon goods, the smaller quantity a pound will procure, and the less value the pound *actually* becomes in purchasing, whether we make an alteration in the coin or not. But then by causing the pound still to remain a *fixed weight of gold*, we are doing our best to prevent this lessened value of the pound from being operative. We are thus acting upon two contrary principles. By imposing indirect taxation, we are saying that the pound shall be of diminished value. By still keeping the pound to be 5 dwts 3 grs of gold, we are saying that the pound shall *not* be of diminished value, and this vacillation produces the deplorable effects described in Letter III.

What we maintain is this:—That as all taxation has the natural effect of causing a less quantity of any commodity to be purchased for the pound, so ought taxation to have the effect of causing *less gold* to be purchased for the pound; which is the only alteration in the pound we contend for. And further, that as we do virtually diminish the value of the pound by increasing the prices of goods by taxation, it is great folly for us to use a commodity for the pound, which prevents this alteration in its value from being universal; but which causes it to be of a higher value to the foreigner than to ourselves, and therefore offers the greater inducement for him to take it from us.

presentative of another value; and it is this same value which the paper pound will represent. This value is the value to which the gold pound itself descends whenever producers succeed in obtaining the taxation-price for their produce; for, as we have before shewn, when this price is obtained, the currency must suffer depreciation, be it metallic or be it paper. The value of the gold pound itself is only that which it will purchase; for, as Dr. Adam Smith truly remarks, "a guinea may be considered as a bill for a certain quantity of necessaries and conveniences upon all the tradesmen in the neighbourhood. The revenue of the person to whom it is paid, does not so properly consist in the piece of gold, as in what he can get for it, or in what he can exchange it for. If it could be exchanged for nothing, it would, like a bill upon a bankrupt, be of no more value than the most useless piece of paper." The gold pound is therefore only the representative of a certain quantity of corn or subsistence, which quantity (if *indirect* taxation be employed) ought to diminish as taxation increases (because prices then become higher), and increase as taxation diminishes (because prices then become lower), and this fluctuating quantity can be better represented by paper than by gold. As to what quantity of corn or subsistence the pound in paper would represent, that can be determined in very few words; for our Corn Laws enable us to speak as to this point, by excluding foreign corn, and thus securing for corn paper-prices in a gold currency. According to the average of the last twenty years, the English gold pound has been equivalent, in this country, to about two and three-quarter bushels of wheat: this, then, under the present rate of taxation, would be about the value of the English paper pound. If taxation, that is, *indirect* taxation were to be *increased*, the paper pound would further depreciate, as would be rendered necessary; and if indirect taxation were *decreased*, the paper pound would rise in value; and could all indirect taxation be taken off, prices would sink

to their natural level; at which rate a metallic currency might, if it were thought proper, be safely established.

"But do you then think it absolutely necessary," it may be said, "to have an inconvertible paper pound, or at least one only convertible into corn?" No, certainly not. We have before shown, that corn cannot act conveniently as a practical *measure* of value, though it is perfect as a *standard*. Let the paper pound be a convertible one, convertible into gold, or if thought better, into silver, or optionally into either gold or silver; but let it be convertible into that *quantity* of either metal which the market shews that our taxation requires it should be exchanged for. But then, it *might* be rejoined, "What fluctuations we should experience! The pound would this week be worth so much gold or silver, and next week it would be worth so much more or less: we should never know what its value would be for a week together." Even if this were the case, which we utterly deny, what need is there to trouble ourselves about this. People do not perplex themselves, because they cannot tell for a week together, how much copper, lead, or iron their present pounds will procure; and there is no reason why it should be more necessary for them, under such a currency system as this, to know how much of the commodity, gold, or the commodity, silver, the pound current was worth, than how much of those other commodities, copper, lead, or iron, it was worth. But as we said before, we utterly deny that fluctuations of any importance would take place. We are content, indeed, to rest the merits of the whole case upon this single point, viz., that it would entirely preserve us from injurious fluctuations. It is the strong contrast which it would exhibit in this respect to the present system, that we consider one of its greatest advantages. The value of the pound would be determined by the amount of the annual taxation; and it would therefore, as far as taxation is concerned, be determined for the whole year. The only variations that could take place

would be, that, if the pound were a pound convertible into gold or silver at the market price, a scarcity or a redundancy of these two metals would cause it to be worth less or more of them. But gold and silver are themselves naturally very equable in their supply; and their value, instead of changing from week to week, scarcely changes from year to year. There would be no scarcity or redundancy of the precious metals in this country, if it were not that our present systems of taxation and currency, first, by one mode of action force these metals abroad, and then, as we cannot do without them, as peremptorily force them back again by an opposite line of procedure. No: the pound sterling, under a system which made notes convertible into gold or silver at the market price, would probably not fluctuate in value one per cent, during the whole year, while under the present *fixed* (as it is thought) system, the pound sterling fluctuates in value twenty or thirty per cent, that is, the quantity of commodities which a pound sterling can command, will vary to this extent. People think, that because the *quantity* of gold is fixed, in the present pound, it is invariable in its value; but this is an erroneous idea. Our gold pound and our commodities may be fitly represented by those weighing machines, of which one scale only, namely, that in which goods are put, descends: load the other scale as you will with the weights,—as it does not go down there is no indication of any increased pressure, until you discover how much more you are obliged to put into the opposite scale to counterbalance it. Our gold pound is this fixed scale; people see no alteration in it, however much it may vary in value; for they only see the variations of the other scale, viz., the prices of commodities. All that they perceive, is, that it takes more or less goods by one third or one fourth part to balance a certain sum, than it did a short time previously. They never dream, however, that the value of the pound is altered; for they have been so accustomed to these fluctuations of price, that they

think them unavoidable. Tell them that the greater part of these changes might be avoided, and they would at once set you down as a visionary. Did they, however, enquire into the causes of these fluctuations in prices, they would find that most of them are caused by alterations in the value of the currency; and that so far from the present being a stable and invariable system, we could not have adopted one more liable to fluctuation.

We believe, that we have answered the principal objections to a paper system, except that it is subject to forgery. It is not worth while, however, entering into this, because experience shews that more spurious currency can be got into circulation under a metallic than under a paper system. A paper currency may be made more secure from forgery, than a metallic currency can be from imitation. The Bank of Ireland has so much improved its notes, that, with a circulation of four millions and a half, all the forgeries upon it for the last four years have only been to the extent of 754*l.* while base coin to the amount of 600,000*l.* is *annually* put in circulation in the United Kingdom.

It may now be asked, in what way, or by what means, can a secure circulating medium be established, which shall recognise and be founded upon the principles exhibited in these letters?

We reply, that it is not our object to mark out any detailed plan of action, but rather to show as far as we can the philosophy of the subject, or the principles upon which *any* system of currency, if it be a correct one, must be established. There is found to be no insuperable difficulty in carrying into effect other measures much more complicated in their details than the Currency, such as the New Poor Law —the Tithe Commutation—or the Act for awarding Compensation to Slaveholders for the manumission of their slaves; nor would there be any difficulty in arranging the details of any currency system, when the principles upon which it should be founded are

once agreed upon. There are many plans already before the public for carrying into effect the principles we have enumerated, the selection of the best of which, or the origination of others, belongs to the legislature. Some advise that the issues of paper money be left quite free and unrestricted, provided the issuers give ample security for the amount of their issues. Others propose to establish a kind of National Bank, where people might mortgage their property, and receive a certain proportion of its value in currency. The plan, however, which we think the best, is that recommended by Mr. John Taylor, who advises that the issues of paper money be under the control of Parliament, as the issues of Exchequer Bills are at present, and that they be limited to the amount of the *annual taxes*. Such a currency as this, convertible into gold or silver at the market price, could not unduly depreciate; as it would be the representative of that amount of property which the state requires from the people every year. This would form *the legal tender* of the country, and whatever additional commercial paper currency might be required, could be furnished by Joint Stock or other Banks.

Whether this latter plan be adopted or not, it should never be forgotten that a circulating medium is but a *sign* or *token* of value; that, as there is *value* in the country amounting to 3,000 millions of pounds sterling, there ought to be no difficulty in providing 50 or 100 millions' worth of signs or tokens; and that to call an individual or a state *bankrupt*, because such an individual or such a state cannot at once turn every kind of property into gold or silver, is to assume that these metals, which, strictly speaking, have only a conventional value, are the only kinds of real wealth in the world.

Above all things let it be remembered:—

1. That the system of currency to be adopted, depends entirely upon the system of taxation to be pur-

sued. That if none but *direct* taxes are levied, a metallic currency at a fixed standard for the pound sterling may answer; but that if *indirect* taxation is pursued, an intrinsically valuable currency cannot be made to work properly, unless foreign intercourse be entirely excluded; which, of course, is quite out of question.

2. That the rise of prices under a paper currency receives a check as soon as these prices rise to a remunerating height; and so powerful is the principle of competition in effecting this, that we believe prices will rather range a little under than over the proper level.
3. That a greater facility in obtaining the representative of value in exchange for value itself, would do away with the greatest abuses of the credit and bill system—would enable men of moderate capital and moderate views, to stand their ground against the overgrown power of monopolists—and would diffuse a general and moderate plenty throughout the land, in place of the large accumulations of property which the present system throws into the hands of those who can contrive to monopolise the general measure of value.

It is more particularly necessary that the principle mentioned in the first of the above three paragraphs should be borne constantly in mind, because many authors who have written upon the currency, and whose works have had a great circulation, have most strangely omitted it altogether. We now allude to the writings of Colonel Torrens, Mr. Jones Loyd, Mr. Horsley Palmer, Mr. T. Joplin, and others. These gentlemen would be in the right, and their plans would probably answer exceedingly well, if there were no indirect taxation to enhance the prices of commodities. Let all indirect taxation be repealed, and such a currency as they recommend, can, as we have before shown, be established. As long, however, as a state sends excise officers round to the ma-

nufacturers of commodities, and says in effect to these manufacturers, "Mr. A. and Mr. B., we find we can raise a better revenue from your customers by making them pay duties upon the goods which you sell them, than we can, by making them pay a direct sum of money to us; and we shall, therefore, levy a duty upon your commodities, which you must regain by making your customers pay a proportionally higher price;" as long, we say, as a state does this, so long is the state bound to furnish the means to the manufacturer of obtaining the additional price—not a farthing of which price, however, would he get, if the plans of these gentlemen were adopted. The result that would follow from their adoption would be this:—that the prices of all things would be brought down to their natural level, just as though no taxation existed, and and as though there were an entirely metallic currency. This is the object expressly aimed at in these plans; they are professedly intended to bring the currency strictly to the condition of a gold and silver currency. This would certainly prevent fluctuations; and by the currency not depreciating here any more than in the foreign market, the gold would be retained in the country. But how would it be retained? Why, by keeping prices so low, that producers would *never* be allowed to recover any *part* of the taxes which they advance to the state. It would relieve the rich men of this country from that part of the taxation which at present they *occasionally* bear when prices rise to a remunerating height; and it would overwhelm the already overburdened poor by placing these taxes *permanently* on their shoulders.

We believe, nay, we are convinced, that such plans would not have been recommended, had the influence of indirect taxation on prices been taken into account. This is an omission, however, easily made, because there does not appear at first sight to be any necessary connexion between currency and taxation. We believe we have made it manifest, that there is this

connexion between them: and we conclude by saying, that we are persuaded that all remedial plans will be fallacious, and will prove abortive, if such connexion be not recognised and acted upon.

POSTSCRIPT.

From what has been advanced in the preceding Letters, we think it very clear, that when a Government employs *indirect* taxation for the collection of its revenue, it not only sanctions, but expressly acts upon the principle of a *depreciated* currency. It is the consequence necessarily resulting from the adoption of such a system of taxation. Government in effect says, that an article which is worth only 20*s.* shall exchange for 25*s.*, in order that it, the Government, may receive a duty of 5*s.* from it. What is this but depreciating the currency? Is it not expressly ordering and ordaining that the currency shall be so lessened in its capability of purchasing, that it shall take 25*s.* of it to purchase a commodity for which 20*s.* was previously a sufficient price? Though the Government makes no alteration in the *material* of the currency, yet it contemplates effecting the same end as such an altera- would effect, namely, a diminution of the power of the currency to purchase. A Government employing indirect taxation, and yet endeavouring to prevent the currency from depreciating in proportion to the taxation, is, therefore, at war with its own acts and principles; is stultifying its own measures; and is blowing hot and cold with the same breath.

There are but three ways in which the intentions of Government can be viewed with respect to this matter:—Either,

1. Government intends that producers *shall* get the taxes repaid them which they advance; or,

2. It intends that they shall *not* get them repaid; or,

3. It has never thought or intended anything about the matter.

Which of these three propositions, we ask, best represents the views of our Government at the present time?

If the first—if Government really intends that producers *shall* be repaid these taxes, we beg most respectfully to tell it, that, to effect this end, the currency *must* depreciate, whether it be metallic or not. If a man succeed in getting 25*s.* for that which is only worth 20*s.*, the Currency *is* depreciated. But if a metallic currency be thus made to depreciate, it will be sure to be exported, and the commerce of the country be brought to a stand-still for want of the representative of value: and this is not the only evil; for, as we have shewn before, foreigners will profit in their exchanges with us to the extent of the depreciation. The only currency which can depreciate without causing stoppage of trade and loss to the country, is a currency which does not possess intrinsic value. This, then, is the only currency which the Government can adopt, if it continue indirect taxation, and really mean that producers *shall* regain the taxes they advance.

But, perhaps the Government intends that producers shall *not* recover these taxes; that they shall *not* get any more for their goods than if they had no duties to pay upon them; and that if manufacturers recover these taxes at all, they shall recover them by beating down the wages of their working men,—thus screwing the taxes out of them. If so—if *this* be the intention of Government—let it plainly say so, and then the enormity of such injustice will be at once apparent to the nation, and will probably undergo a speedy correction.

Let us not, however, do injustice to those placed in authority over us; for we are firmly convinced that

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such is not their deliberate intention: we
scientiously believe that the real reason why the
crepancy which exists between our systems of
rency and taxation has remained so long uncorre
is, that the unfitness of the one for the other ha
been seen by those who have had the power to co
the evil. The truth, simple and palpable en
when pointed out, is not easily arrived at amid
jars and contentions of party politics. Our states
have, for the last few years, been too much occu
with mere party disputes, to allow of their devo
much time to such abstruse questions as the Curre
We have much to deplore in all this. We have
fered losses which can never be recovered. We
nursed and fostered foreign manufactures, which
now superseding us in many neutral markets.
have made taxation to bear so heavily upon the w
ing classes, that their affections have become estra
from all that they formerly loved and honoured.
loyalty for which Britons fifty years ago were so
tinguished, appears to be nearly eradicated; an
the place of it, sullen and gloomy feelings of res
ment and revenge pervade the minds of our op
tives, which only require convenient opportunitie
development and active manifestation.

If our Ministers felt the full importance of
question, they would, merely from a principle of
interest, if from no other motive, exert themselve
the utmost to settle it upon a sure foundation;
such would be the prosperity resulting from suc
settlement, that any ministry that was the instrun
of its accomplishment would probably be retaine
power for a quarter of a century to come.

London, January 4th, 1840.